ANNUAL BUDGET OF

TLOKWE CITY COUNCIL

2012/13 TO 2014/15 MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

Copies of this document can be viewed:

- In the foyers of all municipal buildings
- All public libraries within the municipality
- At www.tlokwe.gov.za

TABLE OF CONTENTS

AMPTELIKE BESLUIT
OFFICIAL RESOLUTION

SPESIALE RAAD / SPECIAL COUNCIL

In terme van Bevoegdheid
In terms of Power

VIR AANDAG/ FOR ATTENTION	VIR KENNISNAME/ FOR COGNISANCE
MF	ALL MANAGERS ALL MMCs CAE

SPC1/2012-05-22 **OPERATIONAL AND CAPITAL BUDGET 2012/2013 (MKader/cjv) (lvv05.08.01) (RMS 13012) (Special Council Agenda 2012-05-22, p. SPC1 – SPC4)** 5/1/2 5/1/2/1

The following documents were distributed on CD to Councillors and officials. The CD was filed with this item.

1. Budget of the Tlokwe City Council for the 2012/2013 financial year.

2. Budget Speech (State of the City Address) for 2012/2013.

3. Policies/By-laws

   3.1 Property Rates By-laws
   3.2 Credit Control, Debt Collection and Indigent By-laws
   3.3 Cash Management and Investment By-laws
   3.4 Expenditure Management Policy
   3.5 Supply Chain Management By-laws
   3.6 Fixed Asset Management (Properties, Installations, Equipment and other Property By-laws
   3.7 Budget By-laws
   3.8 Tariff By-laws.

RESOLVED:

1. That cognisance be taken of the Budget of the Tlokwe City Council for the financial year 2012/2013 attached to the report.

2. That the Tlokwe City Council, acting in terms of Section 24 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) approve and adopt -

   2.1 the annual budget of the municipality for the financial year 2012/2013 and the multi-year and single-year capital appropriations as set out in the following tables:

2.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification);

2.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote);

2.1.3 Budgeted Financial Performance (revenue by source and expenditure by type);

2.1.4 Multi-year and single-year capital appropriations by municipal vote and standard classificaion and associated funding by source;

2.2 the financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

2.2.1 Budgeted Financial Position.

2.2.2 Budgeted Cash Flows.

2.2.3 Cash backed reserves and accumulated surplus reconciliation.

2.2.4 Asset Management.

2.2.5 Basic Service Delivery Measurement.

3. That, to give proper effect to the municipality's annual budget, the Tlokwe City Council approve that cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditonal grants are cash backed as required in terms of Section 8 of the Municipal Budget and Reporting Regulations.

4. That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above lending programme.

5. That amnesty be granted to any individual person or business that have been engaged in the theft of electricity through illegal connections or by-passing of electricity meters.

6. That transgressors be afforded the opportunity to come to the fore within the period 1 June 2012 to 31 August 2012 for which period Council will wave the fine of R7 500 as well as levied corrections due to the tampering of meters, as determined by Council's Credit Control, Debt Collection and Indigent By-laws for the illegal connection or by-passing of electricity meters.

7. That the Manager Finance submit a report to Council during September 2012 containing the list of transgressors that came to the fore.

8. That the Manager Office of the Executive Mayor advertise the amnesty in the electronic and print media as well as on the Tlokwe City Council billboards.

n UITVOERENDE BURGEMEESTER
for EXECUTIVE MAYOR

/kl
2012-05-28

QUALITY CERTIFICATE

I, Sandile Agcrey Tyatya, Municipal Manager of Tlokwe City Council, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name S A Tyatya

Municipal Manager of Tlokwe City Council NW402

Signature ______________________

Date 18 May 2012

Abbreviations and Acronyms

AMR	Automated Meter Reading
ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CBD	Central Business District
CFO	Chief Financial Officer
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DORA	Division of Revenue Act
DWA	Department of Water Affairs
EE	Employment Equity
EEDSM	Energy Efficiency Demand Side Management
EM	Executive Mayor
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GDS	Gauteng Growth and Development Strategy
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
HR	Human Resources
HSRC	Human Science Research Council
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act Programme
MIG	Municipal Infrastructure Grant
MMC	Member of Mayoral Committee
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MM	Municipal Manager
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
OP	Operational Plan
PBO	Public Benefit Organisations
PHC	Provincial Health Care
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
RG	Restructuring Grant
RSC	Regional Services Council
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery and Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

Part 1 – Annual Budget

1.1 Introduction

In his Budget Speech to Parliament on 17 February 2010, the Minister of Finance said: "We cannot expect to do the same old things and expect different results". In the past three years, the world economy has gone through its deepest recession in over 70 years. Signals are that the recovery is still fragile and many commentators caution that current positive economic trends may be short-lived and that the world economy may yet experience a second recessionary wave. Tlokwe City Council was in no way immune to the harsh economic realities associated with the recession. Among the impacts are the various challenges challenges currently being experienced by the municipality due to among other things declining collection rates; historic expenditure patterns and a general lack of "doing business smarter".

Management within local government has a significant role to play in strengthening the link between the citizen and government's overall priorities and spending plans. The goal should be to enhance service delivery aimed at improving the quality of life for all people within the Tlokwe City Council. Budgeting is primarily about the choices that the municipality has to make between competing priorities and fiscal realities. The challenge is to do more with the available resources. We need to remain focused on the effective delivery of the core municipal services through the application of efficient and effective service delivery mechanisms.

The application of sound financial management principles for the compilation of the City's financial plan is essential and critical to ensure that the City remains financially viable and that sustainable municipal services are provided economically and equitably to all communities.

Medium-Term budget 2012/2013 to 2014/2015

With the specific focus on securing a better life for the residents of Tlokwe City Council has essentially resulted in the development of this 2012/2013 Medium-term Revenue and Expenditure Framework (MTREF). The medium-term budget was compiled with a view to addressing key service delivery challenges, focussing on the priorities to ensure that indeed this Municipality works better for all it's citizens, residents and businesses.

The Tlokwe Municipality has prepared this record budget for the 2012/2013 financial year, amounting to R959,13 million increasing to R1,011,06 million in 2013/14. This represents an increase of R160,16 million over the previous financial year. Resources have been allocated to uplift underdeveloped areas, maintain existing infrastructure and fulfil strategic priorities in the Integrated Development Plan (IDP).

The budget recognizes that there are many exciting opportunities for Tlokwe Local Municipality and it's residents, and acknowledging that there are a number of serious challenges that must be addressed to ensure ongoing prosperity and quality of life.

The Municipality is serious about meeting the challenges of creating a City with an enabling environment for all citizens to utilise their full potential and access opportunities which will enable them to contribute towards a vibrant and sustainable economy.

1.2 Council Resolutions

On 22 May 2012 the Tlokwe City Council will meet in the Dan Tloome Council Chamber to consider the annual budget of the municipality for the financial year 2012/13. The Council will approve the following resolution:

1. The Tlokwe City Council, acting in terms of Section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.1. The annual budget of the municipality for the financial year 2012/13 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1. Budgeted Financial Performance (revenue and expenditure by standard classification).

1.1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote).

1.1.3. Budgeted Financial Performance (revenue by source and expenditure by type).

1.1.4. Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source.

1.2. The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables:

1.2.1. Budgeted Financial Position.

1.2.2. Budgeted Cash Flows.

1.2.3. Cash backed reserves and accumulated surplus reconciliation.

1.2.4. Asset management.

1.2.5. Basic service delivery measurement.

2. The Tlokwe City Council, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012:

2.1 the tariffs for property rates – included in the Council Agenda,

2.2 the tariffs for electricity – included in the Council Agenda,

2.3 the tariffs for the supply of water – included in the Council Agenda,

2.4 the tariffs for sanitation services – included in the Council Agenda,

2.5 the tariffs for solid waste services – included in the Council Agenda,

3. The Tlokwe City Council, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2012 the tariffs for other services, as included in the Council Agenda.

4. To give proper effect to the municipality's annual budget, the Tlokwe City Council approves:

    4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

    4.2. That the Municipal Manager be authorised to sign all necessary agreements and documents to give effect to the above lending programme.

1.3 Executive Summary

The application of sound financial management principles for the compilation of the City's financial plan is essential and critical to ensure that the City remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The City's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low to high priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items. Key areas where savings were realized were on telephone and internet usage, printing, workshops, overseas and national travel, accommodation, and catering.

The City has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. A task team is also currently reviewing the Credit Control Policy. Furthermore, the City has undertaken various customer care initiatives to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 55, 58 and 59 were used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as a point will be reached where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2012/13 MTREF process; and
- Availability of affordable capital/borrowing.

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- The 2011/12 Adjustment Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2012/13 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;

There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2012/13 Medium-term Revenue and Expenditure Framework:

Table 1: Consolidated Overview of the 2012/13 MTREF

R thousand	Adjustment Budget 2011/12	Budget Year 2012/13	Budget Year 2013/14	Budget Year 2014/15
Total Operating Revenue	798,969,015	959,132,732	1,011,056,132	1,102,595,543
Total Operating Expenditure	788,995,015	879,484,783	954,304,132	1,037,985,543
Surplus for the year	***9,974,000***	***79,647,949***	***56,752,000***	***64,610,000***
Total Capital Expenditure	140,514,602	157,672,949	124,059,537	124,558,265

Total operating revenue has grown by 20.1% or R160,2 million for the 2012/13 financial year when compared to the 2011/12 Adjustment Budget. For the two outer years, operational revenue will increase by 5.4% and 8.8% respectively, equating to a total revenue growth of R303,6 million over the MTREF when compared to the 2011/12 financial year.

Total operating expenditure for the 2012/13 financial year has been appropriated at R879,5 million and translates into a budgeted surplus of R79,6 million. When *compared* to the 201012 Adjustment Budget, operational expenditure has grown by 11.5% in the 2012/13 budget and by 8.5% and 8.8% for each of the respective outer years of the MTREF. The operating surplus for the two outer years steadily increases to R56,8 million and then stabilise at R64,6 million. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R157,7 million for 2012/13 is 12.2% more than the 2011/12 Adjustment Budget. The capital programme increases to R124,06 million in the 2013/14 financial year and then slightly increases to R124,56 million in 2014/2015. A substantial portion of the capital budget will be funded from internal funds as the approved DBSA loan of R75 million was paid out during the 2011/12 financial year. The balance will be funded from Government grants and transfers. The repayment of capital and interest (debt services costs) will substantially increase over the next years as a result of the aggressive capital infrastructure programme implemented over the past few years especially the upgrading of the electricity network.

1.4 Operating Revenue Framework

For Tlokwe City Council to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macro economic policy;
- Growth in the City and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the City.

The following table is a summary of the 2012/13 MTREF (classified by main revenue source):

Table: Summary of revenue classified by main revenue source

Description R thousand	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year 2013/14	Budget Year 2014/15
Revenue By Source						
Property rates	88,069	90,069	90,069	**98,299**	104,197	110,449
Service charges - electricity revenue	448,668	481,981	481,981	**489,106**	543,015	604,224
Service charges - water revenue	63,981	62,781	62,781	**74,548**	79,021	83,762
Service charges - sanitation revenue	39,410	39,355	39,355	**41,474**	43,962	46,600
Service charges - refuse revenue	22,073	22,148	22,148	**27,152**	28,781	30,508
Grants and other revenue	170,960	166,931	166,931	**228,554**	212,080	227,053
Total Revenue	**833,160**	**863,265**	**863,265**	**959,133**	**1,011,056**	**1,102,596**

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and service charges forms a significant percentage of the revenue basket for the City. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2011/12 financial year, revenue from rates and service charges totalled R 662,2 million or 76,7%. This increases to R 730,6 million, R 799,0 million and R 875,5 million in the respective financial years of the MTREF. The increase in the total percentage revenue generated from rates and service charges which increases from 78.3% in 2012/13 to 79.4% in 2014/15. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Property rates is the third largest revenue source totalling 10.2% or R98,3 million and increases to R 104,2 million by 2013/14. The second largest sources is ‘other revenue’ which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport fee, advertisement fees and grants received. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Table : Operating Transfers and Grant Receipts

	2012/2013	2013/2014	2014/2015
OPERATING GRANTS	R m	R m	R m
National Government			
Equitable Share	85,2	91,3	98,1
Finance Management	1,5	1,5	1,5
Neighbourhood	1,5	2,0	2,0
	88,2	**94,8**	**101,6**
Provincial Government			
Municipal Systems	0,8	0,9	1,0
Expended Public Works Programme	1,0		
	1,8	**0,9**	**1,0**
District Municipality			
Other			
Total	**90,0**	**95,7**	**102,6**

Operating grants and transfers totals R90,0 million in the 2012/13 financial year and steadily increases to R 102,6 million by 2014/15. The above table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the City.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increase of Eskom tariffs are far beyond the mentioned inflation target. Given that this tariff increase is determined by an external agency, the impact it has on the municipality's electricity tariffs are largely outside the control of the City. Discounting the impact of these price increases in lower consumer tariffs will erode the City's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the City is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the City has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the 2010/11 budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R5 000 reduction on the market value of a property will be granted in terms of the City's own Property Rates Policy;

- 50% rebate will be granted to registered indigents in terms of the Indigent Policy;

- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 50% will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:

    - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;

- The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension; and

- The property must be categorized as residential.

• The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer in the prescribed format for such a grant.

The categories of rateable properties for purposes of levying rates and the proposed rates for the 2012/13 financial year based on a 6% increase from 1 July 2012 is contained below:

Table: Comparison of proposed rates to be levied for the 2011/12 financial year

Category	Current Tariff (1 July 2011)	Proposed tariff (from 1 July 2012)
	c in the Rand	c in the Rand
Residential properties	0.371	0.393
State properties	1.113	1.180
Business & Commercial	1.113	1.180
Agricultural	0.9275	0.98315
Municipal service property	0.371	0.393
Industrial	1.113	1.180
Public benefit organisation properties	0.9275	0.983

1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

• Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;

• Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and

• Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

Tlokwe City Council has undertaken an assessment of its capital infrastructure requirements. The assessment indicates that the current infrastructure regarding the water purification and sewerage works is unlikely to sustain its long-term ability to supply clean water and to clean the sewerage to be released in the Mooi Rivier. A detailed upgrading plan of the water purification and sewerage works will be submitted to Council during the 2012/2013 financial year.

The Tlokwe City Council is striving to retain its Blue Drop Status in the future.

A tariff increase of 6% from 1 July 2012 for water is proposed. In addition 6 kℓ water per month will be granted free of charge to all households as per Council policy.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

Table : Proposed Water Tariffs

CATEGORY	**CURRENT TARIFFS 2011/12**	**PROPOSED TARIFFS 2012/13**
	Rand per kℓ	**Rand per kℓ**
RESIDENTIAL		
(i) 7 to 16 kℓ per month	4.34	4.60
(ii) 17 to 36 kℓ per month	4.57	4.84
(iii) 37 to 56 kℓ per month	4.81	5.10
(iv) 57 to 80 kℓ per month	5.05	5.35
(v) More than 80 kℓ per month	5.44	5.77
NON-RESIDENTIAL		
(i) 0 – 5 000 kℓ per month	4.81	5.10
(ii) More than 5 000 kℓ per month	4.34	4.60
(iii) Agricultural Holdings over 6 kℓ	6.02	6.38

The following table shows the impact of the proposed increases in water tariffs on the water charges for a single dwelling-house:

Table : Comparison between current water charges and increases (Domestic)

Monthly Consumption kℓ	Current amount payable R	Proposed amount payable R	Difference (Increase) R	Percentage change
10	17.36	18.40	1.04	6.00%
20	61.68	65.38	3.70	6.00%
30	107.38	113.82	6.44	6.00%
40	154.04	163.28	9.24	6.00%
50	202.14	214.27	12.13	6.00%
80	352.20	373.33	21.13	6.00%
100	461.00	488.66	27.66	6.00%

The tariff structure of the 2011/12 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption a higher rate, steadily increasing to a rate of R5.77 per kilolitre for consumption in excess of 80 kℓ per month.

1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 13.5 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2012.

Considering the Eskom increases, the consumer tariff had to be increased by an average 11.03% to offset the additional bulk purchase cost from 1 July 2012. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality’s revenue from electricity.

Registered indigents will be granted 80 kWh per month free of charge.

The following table shows the impact of the proposed increases in electricity tariffs on domestic customers:

Table : Comparison between current electricity charges and increases (Domestic) – Prepaid Electricity

Monthly Consumption kWh	Current amount payable R	Proposed amount payable R	Difference (Increase) R	Percentage change
100	104.00	115.47	11.47	11.03%
250	260.00	288.68	28.68	11.03%
500	520.00	577.36	57.36	11.03%
750	780.00	866.03	86.03	11.03%
1 000	1040.00	1154.71	114.71	11.03%
2 000	2080.00	2309.42	229.42	11.03%

Table : Comparison between current electricity charges and increases (Domestic) – Conventional Electricity

Monthly Consumption kWh	Current amount payable R	Proposed amount Payable R	Difference (Increase) R	Percentage change
100	139.00	154.33	15.33	11.03%
250	295.00	327.54	32.54	11.03%
500	555.00	616.22	61.22	11.03%
750	815.00	904.89	89.89	11.03%
1 000	1075.00	1193.57	118.57	11.03%
2 000	2150.00	2348.29	233.25	11.03%

A circuit charge was levied in 2011/2012 depending on the demand circuitbreaker (from R30.57 to R383.30 per month).

The new circuitbreaker charge on all conventional meters (irrespective of the type demand circuitbreaker) will amount to R20.00 per month from 1 July 2011 onwards.

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2011. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor). The City's electricity tariff's structure was amended to include the stepped tariffs. NERSA approval of the new tariffs is still outstanding.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the City. Most of the suburbs and inner city reticulation network was designed or strengthened in the early 1980's with an expected 20-25 year life-expectancy. The upgrading of the City's electricity network has therefore

become a strategic priority, especially the substations and transmission lines. The current and planned capital projects will partly address these shortfalls in the electricity supply in the greater Tlokwe demarcated area.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply). It is estimated that additional special funding for electricity bulk infrastructure to the amount of ± R 60 million per year for five additional years will be necessary to steer the City out of this predicament.

Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable for the consumers. It was therefore resolved that the taking up of loans as a strategy for funding of the infrastructure be approved to spread the burden over the life span of the assets. As part of the 2012/13 medium-term capital programme, funding has been allocated to electricity infrastructure but these funding levels will require further investigation as part of the next budget cycle in an attempt to source more funding to ensure this risk is mitigated.

1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of 6% for sanitation from 1 July 2012 is proposed. This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes approximately 20% of waste water treatment input costs, but taken the economy in consideration, the increase of sanitation tariffs is capped on 6% for 2012/2013. In the future, these tariffs need to be increased also to fund the upgrading of the sewerage works and sewerage network. The following factors also contribute to the proposed tariff increase:

- The total revenue expected to be generated from rendering this service amounts to R 41,5 million for the 2012/13 financial year.

The following table compares the current and proposed tariffs:

Table 10: Comparison between current sanitation charges and increases

CATEGORY	Current Tariff 2011/2012		Proposed Tariff 2012/2013	
Residential	Standard rate	R87.60	Standard Rate	R92.86

1.4.5 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The City will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

A 6% increase in the waste removal tariff is proposed from 1 July 2012. Higher increases will not be viable in 2012/13 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services. Any increase higher than 6% would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

The following table compares current and proposed amounts payable from 1 July 2012:

Table : Comparison between current waste removal fees and increases

DESCRIPTION	Current Tariffs 2010/2011	Proposed Tariffs 2011/2012
	Waste Removal R	Waste Removal R
240 ℓ container removed once a week	91.00	96.16
85 ℓ container removed twice a week	91.00	96.46

1.4.6 Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Description Rand/cent	Current Year 2011/12 Original Budget	2012/13 Medium Term Revenue & Expenditure Framework Budget Year 2012/13 % incr.	 Budget Year 2012/13
Monthly Account for Household - 'Middle Income Range'			
Rates and services charges:			
Property rates	241.15	6.0%	255.62
Electricity: Basic levy	–	–	–
Electricity: Consumption	1,580.00	23.4%	1,754.27
Water: Basic levy	36.91	6.0%	39.12
Water: Consumption	17.34	6.0%	18.38
Sanitation	87.60	6.0%	92.86
Refuse removal	74.20	6.0%	78.65
Other	–	–	–
sub-total	2,037.20	9.9%	2,238.90
VAT on Services	285.21		313.45
Total large household bill:	2,322.41	9.9%	2,552.35
% increase/-decrease	10.5%		9.9%
-			
Monthly Account for Household - 'Affordable Range'			
Rates and services charges:			
Property rates	86.57	6.0%	91.76
Electricity: Basic levy	–	–	–
Electricity: Consumption	676.00	16.9%	750.56
Water: Basic levy	36.91	6.0%	39.12
Water: Consumption	178.04	6.0%	188.72
Sanitation	87.60	6.0%	92.86
Refuse removal	74.20	6.0%	78.65
Other	–	–	–
sub-total	1,139.32	9.0%	1,241.67
VAT on Services	159.50		173.83
Total small household bill:	1,298.82	9.0%	1,415.50
% increase/-decrease	3.0%		9.0%
-	-0.98		

Description Rand/cent	Current Year 2011/12 Original Budget	2012/13 Medium Term Revenue & Expenditure Framework Budget Year 2012/13 % incr.	 Budget Year 2012/13
Monthly Account for Household - 'Indigent' Household receiving free basic services			
Rates and services charges:			
Property rates	4.64	6.0%	4.92
Electricity: Basic levy	–	–	–
Electricity: Consumption	63.74	16.7%	70.77
Water: Basic levy	–	–	–
Water: Consumption	14.28	6.0%	15.14
Sanitation	4.90	6.0%	5.19
Refuse removal	8.51	6.0%	9.02
Other	–	–	–
sub-total	96.07	9.3%	105.04
VAT on Services	33.42		14.71
Total small household bill:	129.49	(7.5%)	119.75
% increase/-decrease	13.4%		(7.5%)

1.5 Operating Expenditure Framework

The City's expenditure framework for the 2012/13 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of ***no project plan no budget***. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2012/13 budget and MTREF (classified per main type of operating expenditure):

Table : Summary of operating expenditure by standard classification item

Description	2011/2012	2012/2013	2013/2014	2014/2015
	R m	R m	R m	R m
PERSONNEL EXPENDITURE	245,0	**263,8**	271,0	281,5
ADMINISTRATIVE EXPENDITURE	118,7	**108,2**	114,2	121,7
GENERAL CONSUMABLES	5,0	**5,7**	5,9	6,1
MAINTENANCE EQUIPMENT	21,6	**23,0**	25,9	26,4
MAINTENANCE BUILDINGS	5,0	**3,9**	4,6	5,2
MAINTENANCE INFRASTRUCTURE	31,8	**24,7**	29,0	30,4
PROFESSIONAL & SPECIAL SERVICES	45,4	**44,3**	49,1	51,9
TRANSFER PAYMENTS - CAPITAL	41,7	**47,3**	47,3	47,3
ASSET FINANCING FUND	0	**15,8**	17,8	26,2
TRANSFER PAYMENTS - INTER DEPARTMENT	-25,3	**0**	0	0
TRANSFER PAYMENTS – SPECIAL FUNDS	28,0	**36,0**	44,2	53,8
SEWERAGE SERVICES	0	**0**	0	0
PURCHASE OF ELECTRICITY	256,2	**296,1**	330,2	369,0
PURCHASE OF WATER	15,7	**10,7**	15,1	18,5
Total	788,8	**879,5**	**954,3**	**1,038,0**

The budgeted allocation for employee related costs for the 2012/13 financial year totals R263,9 million, which equals 30.0% of the total operating expenditure. A new collective SALGBC agreement regarding salary increases needs to be negotiated for the following financial years therefor a 5% increase was budgeted for 2012/13. If the negotiated salary is higher than 5% an adjustment can be considered in the 2012/13 adjustment budget.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the City's budget.

The provision for debt impairment was determined based on an annual collection rate of ± 90 per cent and the Debt Write-off Policy of the City. For the 2012/13 financial year this amount equates to R12 million. While this expenditure is considered to be a non-cash flow item, it

informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R36,1 million for the 2012/13 financial and equates to 4.1% of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make up 1.3% (R11,2 million) of operating expenditure excluding annual redemption for 2012/13.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Department of Water Affairs. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

General consumables comprises of amongst others the purchase of materials for maintenance, cleaning materials and chemicals. In line with the City's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the City's infrastructure. For 2012/13 the appropriation against this group of expenditure has grown by 14% (R5,7 million).

Professional and special services has been identified as a cost saving area for the City. As part of the compilation of the 2012/13 MTREF this group of expenditure was critically evaluated and operational efficiencies were enforced. In the 2012/13 financial year, this group of expenditure totals R44,3 million and has decreased by a small percentage. As part of the process of identifying further cost efficiencies, a business process reengineering project will commence in the 2012/13 financial year to identify alternative practices and procedures, including building in-house capacity for certain activities that are currently being contracted out. The outcome of this exercise will be factored into the next budget cycle and it is envisaged that additional cost savings will be implemented.

Administrative expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. The remuneration of councillors are also included in this expenditure category.

1.5.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the City's current infrastructure, the 2012/13 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the City. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure

driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

During the compilation of the 2012/13 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the City's infrastructure and historic deferred maintenance. To this end, repairs and maintenance was increased by 1.18% in the 2012/13 financial year, from R50,9 million to R51,5 million. As part of the 2012/13 MTREF this strategic imperative remains a priority as can be seen by the budget appropriations over the MTREF. In relation to the total operating expenditure, repairs and maintenance comprises of 5.9%, 6.2% and 6.0% for the respective financial years of the MTREF.

1.5.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the City's Indigent Policy.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.6 Capital expenditure

For 2012/13 an amount of R142,2 million has been appropriated for the development of infrastructure which represents 89.1% of the total capital budget. In the outer years this amount totals R113,5 million, 91.5% and R118,0 million, 94.7% respectively for each of the financial years.

Table : Capital as per Municipal Vote

	Prior year outcomes		2012/13 Medium Term Revenue & Expenditure Framework		
Municipal Vote/Capital project	Audited Outcome 2010/11	Current Year 2011/12 Full Year Forecast	Budget Year 2012/13	Budget Year 2013/14	Budget Year 2014/15
EXECUTIVE MAYOR	8,354	777,374	400,000		
OFFICE OF THE SPEAKER	978,268	5,032,350	1,105,000	1,000,000	
MUNICIPAL MANAGER	50,147	64,620	62,500		
BUDGET AND TREASURY OFFICE	1,562,287	193,003	1,197,620	95,000	
PUBLIC SAFETY	2,355,823	2,120,000	2,800,000	3,850,000	2,850,000
CORPORATE SERVICES	401,295	1,810,918	1,150,000	250,000	
INFRASTRUCTURE	69,739,936	90,187,299	142,209,428	113,498,622	118,008,265
COMMUNITY SERVICES	6,025,759	9,873,538			
DEPT. ENVIRONMENTAL MANAGEMENT			1,700,000	2,115,915	2,000,000
SPORTS, ARTS AND CULTURE			3,585,901	250,000	250,000
HUMAN SETTLEMENT AND PLANNING	43,327	209,323	2,440,000	2,000,000	1,200,000
ECONOMIC DEVELOPMENT	439,806	528,265	1,022,500	1,000,000	250,000
TOTAL	81,605,002	110,796,690	157,672,949	124,059,537	124,558,265

1.7 Annual Budget

The Budget comprises of the following tables:

- CONSOLIDATED OPERATING AND CAPITAL BUDGET (A1 – A10)
- OPERATING AND CAPITAL BUDGET SCHEDULES (SA1 – SA37)
- BUDGET RELATED CHARTS